NIO WORKING COPY

Confidential

Interagency Intelligence Memorandum

The Emerging Role of the Soviet Merchant Fleet in World Shipping

Confidential

NI IIM 77-011
April 1977

Copy № 224

Approved For Release 2004/12/01 : CIA-RDP79R00603A002400130001-4

25X1

Approved For Release 2004/12/01 : CIA-RDP79R00603A002400130001-4

CONTENTS

25X1

Approved For Release 2004/12/01 : CIA-RDP79R00603A002400130001-4

THE EMERGING ROLE OF THE SOVIET MERCHANT FLEET IN WORLD SHIPPING

SUMMARY [1]

Since the early 1960s, Moscow has aggressively expanded its maritime assets, nearly quadrupling the size of its merchant fleet and making it one of the 10 largest in the world. However, with less than 3 percent of world tonnage, the Soviet fleet is overshadowed by those of leading shipowning countries like Japan, whose fleet is four times larger. Soviet fleet expansion has permitted some penetration of shipping markets formerly monopolized by Western shipowners, but Soviet competition has been limited by persistent deficiencies in the quality of their fleet and its large role in the domestic and foreign trade of the USSR.

Long-standing qualitative deficiencies afflict the fleet's two largest components. In the liner fleet, 98 percent of the tonnage consists of outmoded general purpose freighters. Such ships are not competitive on major international liner routes where faster and more specialized container and roll-on/roll-off (ro/ro) ships of Western fleets predominate. Because of shallow drafts in most Soviet ports, Soviet tankers average only 17,000 deadweight tons (DWT), less than one-third the world average.

Despite a rapid increase in the carriage of cross trade [2] goods between foreign ports, the Soviet fleet is still predominantly employed in the carriage of Soviet trade. Shipments by the fleet in 1975 were divided as follows: Soviet exports and imports, 45 percent; USSR internal trade, 40 percent; and cross trades, 15 percent.

Three motives account for most of the fleet's current operations:

— the desire to maintain a fleet nucleus capable of carrying all internal seaborne trade and most vital imports and of providing routine support for the Soviet military,

[1] This Intelligence Memorandum was prepared under the auspices of the NIO for Economics. It was drafted by [redacted] in CIA's Office of Economic Research. The paper was not formally coordinated, but benefited from an interagency discussion with representatives from the Departments of State, Treasury, Defense, Commerce, Transportation, Navy, and Justice, the Defense Intelligence Agency, and the Federal Maritime Commission.

25X1

[2] Cross trade cargoes are those carried between two countries by ships of a third country.

— the need to possess sufficient tonnage to meet foreign aid commitments made in pursuit of international political goals, and

— the need to use the fleet as a major earner and conserver of foreign exchange.

The first and second motives each required 27 percent of fleet tonnage in 1975; the third occupied 46 percent of the fleet. The heavy allocation of tonnage for balance of payments purposes reflects the fleet's contribution of 6 percent to the country's gross hard currency income, a figure surpassed only by the oil, timber, and goldmining industries. This hard currency is earned in the carriage both of Soviet exports and of cross trade cargoes. Although it is not observable in day-to-day fleet operations, the desire to possess a contingency capability for large-scale overseas deployment and supply of military forces has also influenced fleet expansion.

Although Soviet ships carry more cross trade cargo as tramp ships [3] under foreign charter than they do as liners,[4] the Soviet fleet's greatest impact on US and other Western shipowners derives from its cross trading activity in the liner trades. This occurs because most Soviet cargo lines (a) operate outside the Western-dominated system of cartels or "conferences"[5] that set rates charged by member lines on the world's key trade routes and (b) undercut conference rates. Because of the inferior service it provides on most routes due to heavy reliance on general purpose ships, the fleet must cut rates to attract cargoes. Cut rates in liner services linking the US with Japan and Europe have won a 3 percent share of that trade for Soviet ships at the expense of US and other Western competitors. Low rates for container shipments between Japan and Europe via the Trans-Siberian Landbridge have similarly taken 8 percent of business away from Western container-ship operators on that route. Under prodding from the US Federal Maritime Commission, the Soviets have taken limited steps to abate their rate cutting in US trade—moving to eliminate all rates lower than those charged by other carriers on the North Pacific and arranging to place seven of their North Atlantic lines in conferences.

Soviet cross trade activity on the more competitive tramp charter market, often involving back-haul cargoes carried by ships returning from the delivery of bulk Soviet exports, evokes few complaints from

[3] As used in this memorandum, the term "tramp" refers to ships outside of scheduled liner service carrying bulk and other goods in shipload lots under charter.

[4] Liners are ships in scheduled services that offer a prescribed number of sailings per month for general cargo on given trade routes.

[5] A conference is an association of liner owners operating in a given direction on a given trade route. The conference sets rates charged by its members and allots sailings among them. Other companies operating on the same route are referred to as "outsiders" or "independents."

Western owners. The volume of cross trade cargo carried by Soviet tramps is still less than the volume of Soviet exports and imports carried on chartered foreign ships.

Planned deliveries of 4.6 million DWT to the Soviet merchant fleet under the 1976-80 Five Year Plan will upgrade a small portion of the Soviet liner fleet with modern ro/ro vessels and full container ships. With greatest emphasis on ro/ro ships, some of which are up to the highest Western standards, Soviet competition with Western operators on some routes will be much more serious, but the number of lines affected will be small.

The heaviest deliveries under the new plan will consist of tankers and dry bulk carriers for the Soviet tramp fleet. By permitting Soviet ships to carry a higher percentage of the country's imports and exports, acquisition of these ships will benefit the USSR's hard currency balance of payments. It will also take a large volume of business away from non-US Western shipowners currently engaged in Soviet trade. The role of US ships in bilateral trade with the USSR will presumably not be affected because it is determined by the cargo sharing provisions of the recently bolstered US/Soviet Maritime Agreement.

25X1

Next 11 Page(s) In Document Exempt

Approved For Release 2004/12/01 : CIA-RDP79R00603A002400130001-4